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Jihwan Hwang
Myongji University

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The East Asia Institute
909 Sampoong B/D, 310-68 Euljiro 4-ga
Jung-gu, Seoul 100-786
Republic of Korea
Tel 82 2 2277 1683
Fax 82 2 2277 1684

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Explaining the mindset of the North Korean regime has been a difficult, if not the most difficult, assignment for scholars and policy-makers who study North Korea. Without this understanding, negotiations often go nowhere and confrontations may escalate into a crisis because the situation is misread. Some have characterized North Korea as aggressive, reckless, and irrational (Downs 1999; Cha 2002; Bush 2002),[1] while others have tried to pinpoint its unique internal logic and motives (Snyder 1999; Kang 2003). Although many have sought to explain Pyongyang's perspectives and policy attitudes, they have still maintained that North Korea is irrational by nature and have been unable to explain the North's own version of consistency. Even though some try to explain North Korea's behavior in a systematic way, they assume that Pyongyang has adopted a single national strategy—of either confrontation or engagement (Sigal 1998; see also Cha and Kang 2003). Some argue that North Korea has never departed from its rogue nature, because the real nature of the regime has not changed at all but remains confrontational and irrational. On the other hand, those who argue that North Korea is ready to change its course of action if the United States and South Korea move first do not really explain North Korea's eccentricities for Western society. Although proponents of both arguments are concerned with Pyongyang's behavior and policies, they have failed to read the North Korean mind and explain how North Korean leaders think and why they behave in a certain way as they do. Aside from the question of whether the real nature of the North Korean regime has changed or not, it is important to understand the main factors that determine Pyongyang's internal and external perceptions and behavior in terms of its own concept of rationality.

This paper emphasizes the importance of the concepts of "saving face" and "reference

points" in assessing North Korea's strategies. The concept of face-saving has often been discussed in explaining North Korea's negotiating behavior (Snyder 1999; Sigal 2006; Zissis 2007). It is said that because the North Korean people have great self-respect, they cannot tolerate humiliation. The North Korean regime is understood to be willing to fight, even in an unfavorable situation, because it prefers saving face to being bullied. This attitude is thought to somewhat explain Pyongyang's aggressiveness and brinkmanship.

However, it is unreasonable to say that North Korea tries to save face at all costs. Although the North always wants to save face, it is not likely to sacrifice strategic values or a specific objective in all circumstances. It is, rather, a very practical regime and makes every effort to maximize its own benefit.[2] This does not mean that Pyongyang is always ready to accept the risk of being bullied and losing face in order to win some benefit. Both face-saving and gaining an objective are important to the North Korean regime. Ideally, it would like to save face and gain an objective simultaneously, but there must be many occasions where the leaders have to sacrifice one for the other. How and why does the North Korean regime make these choices? Regime choices may look irrational by Western standards, but may be rational in terms of the North's way of thinking. Thus, it is necessary to understand the North Korean point of view regarding its strategic environment.

In order to explain the North Korean mindset, I hypothesize that North Korea's face-saving is closely connected with gaining an objective or benefit. A corollary is that the North Korean regime is more likely to feel humiliated when it believes that it has failed to gain the benefit that it originally sought or expected. To explore this hypothesis, I turn to the concept of a "reference point."

A reference point is a cost that people view as the limit of what they can concede—that is, they can concede no more than the cost involved. When people gain more than they expect, they are happy. When the outcome falls short of what they originally anticipated, however, they are disappointed. This reaction may be particularly true of North Korea. If the North Korean regime achieves its reference point, it will be satisfied. But if its reference point is threatened or appears impossible to attain, the North is likely to be seriously provoked and become aggressive, because it may feel that it has lost face. Thus the identification of the reference point is critical in understanding Pyongyang's strategic mindset. Further, the reference point helps us understand the North Korean regime not by its emotional features but by its rational calculation of costs and benefits. The regime may often display unexpected behaviors to save face, but most of these actions can be explained in terms of the reference point, that is, the costs and benefits for North Korea from its perspective.

In short, I posit that recognizing Pyongyang's reference points provides a more accu-

rate picture of North Korea's internal and external perceptions and behavior. We can identify the reference points by examining not only the North Korean regime's objective situation on the Korean Peninsula but also its official perceptions and statements in the North Korean media such as the state-run newspaper *Rodong Sinmum* and the Korean Central News Agency. In the next sections, I will discuss the concepts of face-saving and the reference point, and then explain North Korea's strategic assessments in 2009. In the final section, I will survey the reference point gap on the Peninsula and provide policy recommendations to resolve the gap and move forward.

The Meaning of Saving Face for North Korea

The concept of saving face is present in all societies, but it is particularly emphasized in Asian cultures. Most of all, China is said to be overly sensitive about saving face (Gries 2005). If the Chinese believe that China is not respected in the international community, their nationalism tends to be strongly stimulated. For example, the Chinese saw the U.S. bombing of the Chinese embassy in Belgrade in May 1999 as an attempt to make them lose face. The United States said the bombing was an accident, but most Chinese people believed that it was a deliberate move to humiliate China.

The North Korean context is no different from that of the Chinese. North Korea's mindset is shaped by its unique experiences as well as by its Confucian culture. Since the establishment of the North Korean regime, its experiences have encouraged its strong focus on the concept of *Juche* and emphasis on the defense of sovereign rights. *Juche,* which is commonly translated as self-reliance, was originally developed to deal with the Sino-Soviet conflict during the Cold War, but it has become the blueprint for the North Korean way of thinking and the central guideline for its internal and external policies (Park 2002). Because *Juche* calls for a stable regime based on self-reliance in national defense, the ideology has determined Pyongyang's strategic assessments.

Since the end of the Cold War, *Juche* ideology has remained unchanged, which means that substantive concessions or submission in negotiations between North Korea and other parties cannot be accepted. If the regime yields to foreign pressure, it will lose face and the *Juche* ideology that is so highly valued will be threatened. North Korean leaders have often told Americans, "Saving face is as important as life itself for us" (Oberdorfer 2001, 278). Thus when the North Korean regime has been troubled by a worsening situation and inevitably needs to offer a concession or change its position for a strategic reason, it

normally has required a way of saving face (Snyder 1999, 90). For example, U.S. negotiators saw that the 1994 Agreed Framework provided an opportunity for North Korea to break out of its security dilemma and save face (Wit, Poneman, and Gallucci 2004, 390).

The significance of saving face can be seen most strongly in the North Korean attitude toward "sovereign rights." Because this concept has been closely connected to *Juche* ideology and has critically influenced North Korea's policy decisions, the violation of the North's sovereign rights by foreign countries is regarded as a humiliation that makes it lose face. The North Korean media often says that "infringing our sovereign rights and dignity is an act of insult and crime that can never be tolerated" (KCNA 2009m) so that "we are always ready to chastise ruthlessly those who provoke us" (KCNA 2009h; *Rodong Sinmun* 2009a).

The North Koreans' concern with saving face is thought to be related to their inferior and handicapped strategic position. As a Confucian saying holds, "Petty people are irascible. If you draw close to them, they are contemptuous of you. But if you are distant from them, they bitterly complain" (Gries 2005, 29). While a superior nation can be broad-minded, an inferior nation tends to be resentful because such behavior can create leverage for it as a way out of its weakness (Snyder 1995, 85). In order to avoid humiliation, North Koreans are less likely to concede and more likely to be aggressive in negotiations. Once they believe that they have lost face, the negotiation tends to become deadlocked and the situation deteriorates into a vicious circle.

From Face-Saving to Strong Reference Point Bias

In order to save face, the North Koreans often run the risk of appearing to behave irrationally or against their own best interests. However, they do not try to save face at the expense of their important strategic interests, which they can hardly give up. In this sense, North Korea's face-saving attitude is closely related to securing its reference point, which is an act of defending its important strategic positions. Because the reference point is the lowest level of expectation that they can tolerate, it is important to know whether or not the negotiation is threatening the reference point. If the point cannot be defended, the North Koreans will be much offended and become more aggressive as the danger of losing face increases. The reference point is normally the status quo or one's current position, but in some cases, it may be one's expectation or aspiration level (Kahneman and Tversky 1979, 286).[3]

Another issue here is the change of reference point. Because nations are very slow to adjust to a new situation after suffering losses but very quick to adjust after making gains, the impact of a change on a nation's perception and behavior is important to recognize. Even after suffering various losses, the nation may be reluctant to adjust to the new situation, which has a lower reference point than before, and would prefer to stay at the old reference point. In this case, the nation will perceive any situation that falls short of the original reference point as a loss. Thus, the nation will attempt to recover its loss and restore the original reference point, thereby retrieving its lost face. However, the other nation, which has just made some gains, will quickly renormalize at its new reference point and attempt to maintain it. As each nation tries to defend its own reference point, a spiral of hostility and inadvertent confrontation will ensue.

The North Korean regime will be sensitive about defending its original reference point. Once North Korea suffers losses in the negotiation process, it will feel that it has lost face and make every effort to recoup those losses. However, if its negotiating counterpart tries to take the losses as a *fait accompli*, the North will become much more belligerent. North Korea has shown so far that it rarely yields from its original position. As a result, North Korea's reference point tends to rise continuously as time goes on. The identification of North Korea's reference point is particularly important because it can have a critical effect on the change in its perceptions and decisions.

Assessing North Korea's Reference Point in 2009

The issue of saving face in the North Korean situation has been widely acknowledged by scholars, U.S. policy-makers, and the media. For example, in an effort to deal with the controversial issue of the North Korean nuclear program, Christopher R. Hill, then Assistant Secretary of State, often tried to give North Korea a face-saving way to surrender its nuclear equipment, and wondered how the North Koreans would react to a face-saving measure designed to salvage the disarmament pact (Sanger 2007; Associated Press 2008). Regarding the rocket launches of spring 2009, U.S. officials have noted that the "North Koreans have pretty much backed themselves into a corner," so that "they are certain to go ahead with the launch" because "it is now an issue of saving face" (CNN 2009). Policy analysts on North Korea also emphasize the significance of saving face in understanding its foreign policy. They say that "it will be difficult for the North to back down from its threat unless a face-saving solution can be found" (Herskovits 2009).

However, what matters more is not just to understand the importance of saving face but to identify North Korea's reference point. U.S. attempts to give North Korea a face-saving exit without considering its reference point are likely to end in failure, because the North Koreans may not think that they can save face via a U.S. proposal. This may be one of the reasons that so many negotiations with North Korea have gone wrong at the first stage.

We can examine North Korea's recent reference points by tracing its strategic assessment of the Korean Peninsula in 2009. Three issue areas that affect both internal and external policies are important: North Korea's nuclear issue, domestic politics, and inter-Korean relations.

The Nuclear Issue

North Korea refers to the nuclear crisis as a hostile U.S. policy toward North Korea

North Korea never says that it will maintain a nuclear weapons program forever. It contends that "we will not need nuclear weapons any longer when America's nuclear threat on North Korea is removed and its nuclear umbrella on South Korea does not exist" (KCNA 2009b). It argues that North Korea possesses nuclear weapons not because it really wants them but because the United States has pursued a hostile policy containing a nuclear threat, so that the North is in an inevitable situation that any nation in its place would understand (KCNA 2009p). The North thus implies that it will never give up its nuclear weapons without a complete removal of U.S. hostility and nuclear threat (KCNA 2009b).

North Korea has held this position for over two decades. Kim Il-sung once stated that "it is the U.S. that raised the suspicion of the North's non-existent nuclear development and also that actually brought nuclear weapons into the Korean Peninsula and threatened us." [4] From the North Korean perspective, the nuclear issue remains defined by Cold War politics, so they call it the "nuclear issue on the Korean Peninsula," not the "North Korean nuclear crisis,'" highlighting the introduction of U.S. nuclear weapons in South Korea during the Cold War (Hayes 1991). North Korea's current position has not varied since then. It argues that "the nuclear issue on the Korean Peninsula was produced by U.S. hostility and nuclear threats toward North Korea, not vice versa" (KCNA 2009b).

In short, given North Korea's reference point that the possession of nuclear weapons is its ultimate step toward its state and regime security, it is improbable that it will move

first and make any concession on the nuclear issue under the current regime. If North Korea were to move first under the current situation, it would not only destabilize its state and regime security but also lose face by appearing to surrender to the United States. It says that North Korea "can live without . . . diplomatic normalization with the U.S. but cannot live without . . . nuclear deterrence" (KCNA 2009c).

However, from the American perspective, whether from a Republican or a Democratic administration, resolving the North Korean nuclear issue is a prerequisite for diplomatic normalization and the transformation of U.S.–North Korean relations. The Obama administration continues to impose diplomatic and economic sanctions on North Korea to punish its rogue behaviors, and has not yet started talking with the North despite its initial statement that it would sit face to face to resolve the nuclear issue This lack of action is contrary to the U.S. effort to accommodate other nations (Stolberg and Cave 2009). For this reason, it is unrealistic to think that, even under the Obama administration, the United States will accept North Korea as a nuclear state.[5] This can be easily seen from President Barack Obama's speech in Prague right after North Korea's rocket launch on April 5. He said, "We were reminded again of why we need a new and more rigorous approach to address this threat. North Korea broke the rules once again by testing a rocket that could be used for long-range missiles. This provocation underscores the need for action—not just this afternoon at the United Nations Security Council, but in our determination to prevent the spread of these weapons. Rules must be binding. Violations must be punished. Words must mean something. The world must stand together to prevent the spread of these weapons. Now is the time for a strong international response, and North Korea must know that the path to security and respect will never come through threats and illegal weapons. All nations must come together to build a stronger, global regime. And that's why we must stand shoulder to shoulder to pressure the North Koreans to change course" (Office of the White House Press Secretary 2009). In this sense, North Korea does not think that the Obama administration is different from the former Bush administration (KCNA 2009j).

North Korea insists on negotiating with the United States bilaterally rather than, or before, returning to the Six-Party Talks

North Korea has consistently insisted that the nuclear issue should be bilaterally negotiated with the United States. Kim Il-sung once emphasized the inevitability of bilateral talks with the U.S., given the origins of the nuclear issue on the Korean Peninsula (*Rodong*

Sinmun 1994a). Also during the first nuclear crisis in the 1990s, North Korea's Foreign Ministry often contended that the "UN Security Council is not a place in which our nuclear problem is discussed" (*Rodong Sinmun* 1993) and "Japan and South Korea do not have to pay attention to the DPRK-U.S. talks" (*Rodong Sinmum* 1994b). The first nuclear crisis was in fact resolved by bilateral talks, which produced the Geneva Agreed Framework between the two.

During the second nuclear crisis since the fall of 2002, North Korea was also reluctant to participate in multilateral talks. When the North had three-party talks with China and the United States in early 2003, it looked upon them as a bilateral negotiation with China's assistance (Pritchard 2007, 101–102). Although North Korea finally joined the Six-Party Talks in August 2003, it continued to attempt to negotiate directly with the United States, and the talks went nowhere for the first two years because the United States resisted direct talks.

North Korea believes that the Six-Party Talks trampled on its sovereign rights and dignity when its participants joined the UN Security Council sanctions on the North's satellite launch and nuclear test of spring 2009 (KCNA 2009g). North Korea's Foreign Minister Pak Ui-chun stated that North Korea will neither come back to the Six-Party Talks nor be bound by any agreement that might result from them (KCNA 2009i). The North Koreans see the Six-Party Talks as aiming to denuclearize Six-Party Talks the whole Korean Peninsula, not solely the northern part of it, and believe that what they agreed to in the Joint Statement of September 19 in 2005 was "not the improvement of relations through denuclearization but denuclearization through the normalization of relations" (KCNA 2009b).

The United States and North Korea may share the documents of the Six-Party Talks, but they interpret them in completely different ways because of their different perspectives on the origin of the nuclear issue. North Korea feels it has lost because the U.S. interpretation of statements made in the Six-Party Talks falls short of the reference point that the North Koreans expected. The Six-Party Talks have sought to avoid conflicts among participating nations by tolerating a certain amount of ambiguity and emphasizing reciprocity, but in reality the North is not ready to accept the ambiguity. The North Koreans continuously insist that the nuclear issue should be negotiated bilaterally with the United States because it is the United States that threatens them. In this sense, North Korea continuously tries to exclude South Korea from the nuclear talks (KCNA 2009e).

Although North Korea later showed its willingness to participate in multi-party talks, including the Six-Party Talks, it continues to make U.S.-North Korean bilateral talks a strong priority. Kim Jong-il made it clear when he met with prime minister Wen Jiabao of

China and stated that North Korea might return to the Six-Party Talks on the condition that the U.S.-North Korean negotiations go smoothly (KCNA 2009p). Even when North Korea returns to the Six-Party Talks, it is not likely to accept the talks as they last stood, because it has shown strong objections to the framework.

North Korea attempts to make its position as a nuclear weapons state a fait accompli

North Korea now declares that "the essence of the nuclear issue on the Korean peninsula is U.S. nuclear weapons versus our nuclear weapons" (KCNA 2009c). Such a statement implies that North Korea is now a nuclear state, regardless of whether the United States and the rest of international society accept it or not (KCNA 2009o). Pyongyang also states that it will not give up nuclear weapons even if U.S.–North Korean relations are diplomatically normalized (KCNA 2009c). This statement is somewhat different from Pyongyang's previous official position, that it might give up its nuclear weapons program if the United States promised not to use nuclear threats and guaranteed the North's security.[6]

North Korea now tries to deal with the nuclear issue as a nuclear weapons state. It now does not intend to give up nuclear weapons in return for U.S. diplomatic normalization and economic assistance. It rather insists that nuclear disarmament talks among nuclear weapons states, including North Korea, are the only means to resolve the nuclear issue on the Korean Peninsula (KCNA 2009c; see also KCNA 2009e). Although North Korea still states that the nuclear issue may be resolved if U.S. hostility comes to an end, that eventuality is unrealistic given the current relations between Pyongyang and Washington. In this sense, North Korea now attempts to negotiate the nuclear issue with the same status as the United States has. Because North Korea sees the issue from the perspective of equal sovereign rights (KCNA 2009f; KCNA 2009g), the nuclear issue is much harder to resolve. From this perspective, North Korea justifies its nuclear testing as a legitimate right (KCNA 2009m; see also KCNA 2009n).

North Korea's reference point has therefore risen from a previous position of a nation with nuclear program to a new position of a nuclear weapons state. Because North Korea perceives that only nuclear weapons can guarantee its sovereign rights in the international arena, it does not intend to abandon nuclear weapons under the current regime (KCNA 2009j).

However, the United States is not likely to accept North Korea as a nuclear weapons state. Rather, the Obama administration has set out a plan to reinforce the global nonproliferation regime (Office of the White House Press Secretary 2009).

Domestic Politics

North Korea sees its leadership succession as a key to regime stability

Since the mid-1990s, many scholars and policy analysts have believed that the North Korean regime was eventually going to collapse (Eberstadt 1999). Kim Jong-il himself was also concerned about the possibility of political chaos (*Monthly Chosun* 1997), and many experts on North Korea discussed several scenarios for the country's future (Oh and Hassig 2000). However, the regime turned out to be strong enough to "muddle through" its domestic crisis (Noland 1997). Pyongyang has long been aware of domestic causes of regime instability and has kept any dissent relatively suppressed with a strong exertion of social control and focus on political education (Oh and Hassig 2000, esp. 127–147; Hwang 2001, 72–73).[7] Because North Korea has been as controlled and closed as any other society in history, its leaders may be able to continue to control the domestic situation relatively easily. The North's domestic stability can be seen in the smooth leadership change from Kim Il-sung to Kim Jong-il in the 1990s. If the North's domestic politics had been unstable, Kim Jong-il's status should have been relatively weak and he would have had some difficulty in succeeding to power, but he moved up without any difficulty as chairman of the National Defense Commission and supreme commander of the Korean People's Army. The army has continued to express its strong support for Kim, emphasizing that it will continue to favor his military-first policy and follow him (KCNA 2001).

Leadership succession remains an important test for North Korean stability. The regime is again said to be prepared for a leadership change from Kim Jong-il to one of his sons (Sanger 2009), appearing to accelerate the succession after Kim Jong-il suffered a stroke in August 2008. However, it is unclear whether the leadership succession will go as smoothly this time, not only because the designated successor, Kim Jong-un, is too young and inexperienced to serve as a leader, but also because he is almost unknown to the North Korean people. In the mid-1990s, even before his father, Kim Il-sung, died, Kim Jong-il had significant power. Taking charge of most internal and external affairs (Hwang 2001, 88–89), and was revered as a "Dear Leader" by the North Korean people. His son

does not currently enjoy that popularity, and many scholars have again started discussing the possibility of regime collapse or sudden change in North Korea (Stares and Wit 2009).

North Korea sees its economic recession as an obstacle to regime security

North Korea's economy appears to be getting much worse. The North's economic situation appeared to have passed through the worst of the "arduous march" by the end of the 1990s, mostly thanks to economic aid and cooperation from the South Korean government and international society.[8] According to South Korea's National Statistical office, North Korea's annual economic growth rate turned positive in 1999, getting out of the long depression of that decade. Furthermore, economic aid from the South Korean government during the Kim Dae-jung and Rho Moo-hyun governments must have also helped the North Korean economy recover in the first decade of the new millennium, as shown in Table 1. However, the North Korean economy was predicted to turn downward again as the Lee Myung-bak government took office in 2008. North Korea's main sources of income from South Korea, such as the Mt. Geumgang tour and the Kaesong Industrial Complex, have fallen into difficulty. The Mt. Geumgang tour was stopped after the assassination of a South Korean woman there in June 2008. The Kaesong Industrial Complex is not working well and the stability of its operation is worsening. Moreover, after North Korea's rocket launch and nuclear test in 2009, international sanctions were reinforced, and economic cooperation with South Korea became much more difficult. South Korea's economic aid to North Korea in 2008 was cut by almost one-fourth, and the reduction is likely to have a strong negative impact on the North Korean economy, which in turn will have a negative impact on regime stability.

For these reasons, the North Korean regime has made even stronger efforts to stabilize its domestic regime. It is often assumed, for example, that the rocket launch and nuclear test were designed to deliver a strong message not only internationally but for domestic solidarity (Fackler 2009). Especially because the support of North Korea's military is essential in the regime's leadership succession, some assume that the nuclear test reflects the regime's hope that it will help ensure a smooth transition of power by showing solidarity with the powerful military groups; others believe that the regime hopes that a display of technological prowess will attract people's support. The North Korean media has repeatedly heralded the accomplishment (*Rodong Shinmum* 2009b), and the regime even held mass rallies in Pyongyang to celebrate the successful test of nuclear weapons (KCNA 2009l). At this rally, participants noted in several speeches that the test was an

achievement of the military-first policy that defends the regime's highest interests and secures North Korea's dignity and sovereign rights.

Table 1: South Korea's economic aid to North Korea, and North Korea's annual economic growth rate

Year	South Korea's economic aid to North Korea (in thousands of US dollars)	North Korea's annual economic growth rate (percent)
1997	47,230	-6.3
1998	31,850	-1.1
1999	46,880	6.2
2000	113,770	1.3
2001	135,390	3.7
2002	134,920	1.2
2003	157,630	1.8
2004	247,910	2.2
2005	212,540	3.8
2006	300,550	-1.1
2007	323,040	-2.3
2008	85,440	3.7

Source: Korea National Statistical Office. [9]

Regime stability is always one of the North's most important reference points, which can never be given up at any cost. The North Korean media says that North Korea's dignity and honor is at once Kim Jong-il's authority (*Rodong Shinmum* 2009c). Thus any challenge to the Kim Jong-il regime is regarded by the North Korean people as an unpardonable crime that infringes on the nation's sovereign rights (*Rodong Shinmum* 2009a).

Inter-Korean Relations

Early in 2009, North Korea declared that all the agreements between the two Koreas were invalid because of the actions of the South Korean government (KCNA 2009d). Why did the North change its course of action, even sacrificing so many of the benefits it had enjoyed for the previous ten years, including those of the Mt. Geumgang tour and the Kaesong Industrial Complex? Although North Korea is clearly provoked by the South Korean

government's new North Korea policy, it is still meaningful to recognize what the North's reference points are that cannot be conceded to the South.

North Korea insists on the June 15 Joint Declaration and the October 4 Declaration

The Committee for the Peaceful Reunification of Korea, which is North Korea's office dealing with the South Korean issue, stated that the "June 15 Joint Declaration and October 4 Declaration are milestones for reunification that were adopted by [the] highest leaders of [the] two Koreas and supported by both the Korean people and the world" (KCNA 2008). Because the North Koreans regard "these two declarations as a general rule for inter-Korean relations that contain all the agreements so far," they argue that "denying the declarations is denying reunification and inter-Korean relations."

However, the Lee Myung-bak government takes more seriously the Inter-Korean Basic Agreement, which was agreed upon in 1991, than the June 15 Joint Declaration and the October 4 Declaration. The North Korean regime strongly resists this position. Because the Lee government perceives the Sunshine policy of Kim Dae-jung and Rho Moo-hyun as a faulty approach that supported the North unconditionally despite its rogue behaviors, they propose the "Vision 3000," [10] a new North Korea policy that emphasizes reciprocity between the two Koreas. In this sense, the Lee government gives more priority to the Inter-Korean Basic Agreement, which is relatively more reciprocal.

North Korea responded harshly to South Korea's new policy in a denunciation headlined, "Who broke down inter-Korean relations?" (KCNA 2008). North Korea places more value on the June 15 Joint Declaration and October 4 Declaration not only because they are more beneficial and favorable to the North but also because they were agreed to by its "Dear Leader." Moreover, the new South Korean policy focuses more on international coordination, in particular on U.S.-South Korean relations than on inter-Korean cooperation, and North Koreans believe the new policy defames the spirit of the two declarations, drafted "'by our nation itself" (KCNA 2009a). In essence, the two declarations are North Korea's reference point and cannot be compromised (*Rodong Shinmum* 2009a). On the other hand, the Inter-Korean Basic Agreement was agreed to on the ministerial level, not by the highest leader, and the North Koreans seem to feel somewhat humiliated because they think that they conceded too much in the agreement.[11] As a result, North Koreans believe that they lose face when the South Korean government emphasizes the Inter-Korean Basic Agreement over the two summit declarations.

North Korea attempts to secure its leverage and benefits from economic cooperation

North Korea underscores the spirit of "by our nation itself" on the Korean Peninsula, because it may give the North some leverage in inter-Korean relations by emphasizing cooperation between two Koreas more than foreign interference (*Rodong Shinmum* 2009a). Similarly, regarding the Mt. Geumgang tour and the Kaesong Industrial Complex, the North Korean regime states that these were preferential measures that it graciously granted to South Korea under the spirit of "by our nation itself" (KCNA 2009k). Although North Korea has benefited much more from economic cooperation with South Korea, than the South has with the North, the North argues that any cooperation is a special favor to the South in deference to the June 15 Joint Declaration. However, North Korea just declared the preferential measures to be void and called for a new negotiation, arguing that South Korea has completely disavowed the spirit of "by our nation itself" (KCNA, June 11, 2009q). Because the preferences were made possible by the declaration, the North says that they cannot be granted any longer now that the declaration has been voided (KCNA 2009k).

North Korea's reference point in this case is that it can have some leverage from economic cooperation with South Korea and keep receiving benefits from it. Because the economic benefit and political leverage became difficult to obtain under the Lee government, North Korea became provoked and turned aggressive.

Policy Recommendations

In sum, North Korea's strategic choices, which seem irrational to outside observers, in fact reflect its own rationality by defending its position and saving face in terms of its reference points. If it is understood that the North Korean regime has a bias toward saving face, it is possible to explain and predict its behavior and also to lay out some policy recommendations to guide the policy-makers of the United States, South Korea, and other neighboring countries.

Identify correctly North Korea's reference point and current situation

It is of central importance to identify North Korea's reference point and its current situation before laying out policies. If the situation does not challenge the North's reference point, Pyongyang is more likely to be conciliatory, and its willingness to compromise will increase greatly. However, if it perceives its situation to fall below its reference point, it is more likely to be aggressive and provocative, and it will be reluctant to compromise.

Identify the reference point gap between North Korea and international society

After recognizing North Korea's reference point, the next step is to understand the reference point gap between North Korea and international society, because narrowing the gap is the key to the resolution of the conflict. If the gap is big and widening, the negotiation is more likely to end in a deadlock. Moreover, if North Korea's overall situation appears to be worsening, widening the gap with its own reference point, the negotiations will be much more difficult. In this situation, there is little impetus for North Korea to compromise, and it is hard to negotiate without escalating the situation into a crisis. North Korea normally appears to try to find an exit out of a crisis while saving face (Snyder 1999, 89–91), but it may have great difficulty in backing down unless a face-saving means of exit is provided by international society (Herskovitz 2009). Conversely, if the gap is small, the negotiation is more likely to be successful because there is more chance to compromise.

As explained above and also shown in Table 2, there is a huge gap in reference point between North Korea and international society in 2009. North Korea's current situation is well below its reference point, and its rocket launch and nuclear test have only widened the gap. North Korea can be expected to continue its nuclear confrontation to defend its reference point and save face, and the crisis is likely to become much more escalated. Action needs to be taken to narrow the reference point gap between the two camps.

Provide North Korea with a face-saving way to narrow the reference point gap

It is necessary for both parties to readjust their reference points. North Korea's reference point is usually much higher than others expect. The dilemma here is that North Korea is unwilling to readjust its reference point while the international society cannot accept the North's reference point as it is. The dilemma remains not only because accepting North Korea's unadjusted reference point is a major threat to world peace, but also because it tends to invite further demand once the demand is accommodated.

Table 2: Reference point gap between North Korea and international society in 2009

	North Korea's reference point	U.S. and South Korea's reference point
Nuclear issue	▪ North Korea sees source of nuclear crisis as U.S. hostile policy toward North Korea. ▪ North Korea insists on negotiating with the U.S. bilaterally rather than returning to the Six-Party Talks. ▪ North Korea attempts to make its position as a nuclear weapons state a fait accompli.	▪ The U.S. and South Korea see source of the nuclear crisis as North Korea's nuclear weapons program. ▪ The U.S. and South Korea insist on North Korea's returning to the Six-Party Talks. ▪ The U.S. and South Korea do not accept North Korea's position as a nuclear weapons state.
Domestic politics	▪ North Korea sees the leadership succession as a key to regime stability. ▪ North Korea sees its economic recession as an obstacle to regime security.	▪ The U.S. and South Korea believe that North Korea's unwillingness to give up nuclear weapons program and open its society are major obstacles to regime security.
Inter-Korean relations	▪ North Korea insists on June 15 Joint Declaration and October 4 Declaration. ▪ North Korea attempts to secure its leverage and benefit from economic cooperation.	▪ South Korea takes more seriously the Inter-Korean Basic Agreement in 1991. ▪ South Korea pursues reciprocity in economic cooperation.

In this sense, it is necessary to provide North Korea with a face-saving way to readjust its reference point, while international society also has some flexibility. Will North Korea then be willing to readjust its reference point? The task is not an easy one but not an impossible one, because North Korea usually attempts to find an exit even in a deep crisis. The issue here is to distinguish North Korea's short-term tactical reference point from its long-term strategic one. North Korea is less likely to give up its strategic reference points, such as regime security, but it may be tempted to readjust its tactical reference points, such as policies regarding the Six-Party Talks, economic cooperation, and so on. Thus, international society needs to provide North Korea with a face-saving exit and seek continuously to persuade it to change its reference point, making clear the the North will lose face if it does not adjust its reference point but instead maintains its brinkmanship.

Devise a long-term plan for North Korea

A long-term plan to resolve the problem of North Korea fundamentally is also needed. For North Korea, the nuclear issue is deeply connected to the regime's stability and future, so international society has to go beyond naïve engagement, hard-line punishment, or the strategy of benign neglect (Chun 2009). While the Sunshine version of engagement policy is likely to raise North Korea's reference point by providing unconditional support, neither the coercive hard-line punishment nor the strategy of benign neglect alone is likely to succeed in resolving the North Korean problem, either (Sigal 2006). In fact, if the North Korean regime is pushed into a corner, it may become more risk-acceptant and choose to lash out to avoid losing face. This situation would be very similar to the desperate mindset of "double or nothing" by terrorists who resort to suicide bombings, believing that they have nothing to lose (Cha 2002, 54). Nobody wants to see such a worst-case scenario realized on the Korean Peninsula.

International society thus needs to provide North Korea with a face-saving exit, even in a deep crisis, and persuade the North to accept the exit plan. There has already been at least one case in which Pyongyang changed its course of action to save face. During the first nuclear crisis through the early 1990s, North Korea had confronted the United States but in June 1994, it was suddenly willing to accommodate U.S. demands in the face of the extremely risky outcome for regime survival implied by UN sanctions and a prospective U.S. attack. As Oberdorfer has explained, "in the spring of 1994, the growing power of the forces arrayed against [North Korea] strongly suggested that further escalation of tension would be dangerous and not necessarily to North Korea's advantage. By the time Carter arrived, Kim Il-sung was seeking a way to end the crisis without losing face or surrendering his bargaining card, and the former president provided the means" (Sigal 2006).

U.S. officials who participated in this deal also shared this view, making the following observation, "Pyongyang had to know that if it passed up the face-saving exit and continued to defy the international community, it would experience increasing isolation and hardship. These efforts put pressure on North Korea to back down when the crisis crested in June 1994. Arriving in Pyongyang at the critical moment, former President Jimmy Carter gave the North Koreans a face-saving way out. They took it" (Wit, Poneman, and Gallucci 2004, 398).

This example shows that it is possible to narrow the reference points between North Korea and international society, and that coercion without a face-saving plan will only make Pyongyang more risk-acceptant. Ways must be found to get North Korea to concede and change its reference point while still saving face. It is important that the North not feel

disregarded. It must be able to save face and defend its reference point while not posing a threat to international society.■

Endnote

[1] This perception is reflected in President George W. Bush's statement regarding the "axis of evil." Office of the White House Press Secretary (2002).

[2] Regarding Kim Jong-il, Madeleine K. Albright, who visited North Korea in 2000 while U.S. Secretary of State, found him "very decisive and practical and serious," indicating that Kim Jong-il is neither irrational nor unpredictable. See press conference of the Secretary of State Madeleine K. Albright (2000).

[3] The concept of reference point was originally introduced by Kahneman and Tversky in psychology and economics in an effort to explain individual's decision making under conditions of risk. It was also developed in international relations, particularly areas of foreign policy. See Farnham 1994; McDermott 1998.

[4] Kim Il-sung's New Year's Address, See *Rodong Sinmun*, 1994a.

[5] The Office of the President-Elect. 2008. *The Obama-Biden Plan*. Available at http://change.gov/agenda/foreign_policy_agenda/.

[6] See *Rodong Sinmun,* 2002. Security was also the main issue of the Geneva Agreed Framework in 1994. In reality, security assurance from the United States was the North's consistent demand from the beginning. For example, Kim Yong-sun, secretary for international affairs of the Korean Workers' Party, demanded the cessation of U.S. threats when he met with Arnold Kanter, undersecretary of state, in January 1992. See Sigal (1998, 35-37).

[7] According to Hwang Jang-yup, who was a secretary of the North Korean Workers' Party and the principal architect of North Korea's self-reliant *Juche* ideology, and later defected to South Korea in 1997, there are two different police organizations in North Korea. One is the department of social security, which is known to the public, and the other is the department of national security protection,

which is the secret police. The number of personnel in these two departments was 300,000 in 1990, more than one percent of the total population. Hwang (2001, 72-73).

[8] Hwang Jang-yup (2001, 64-65) also contended that the North Korean regime was nearly on the point of collapse between 1995 and 1998. Owing to the Clinton administration's engagement policy and South Korea's Sunshine policy, he argued, North Korea was able to avoid regime collapse and reduce its internal domestic pressure, and therefore it had to continue to depend on the United States and South Korea rather than lash out (Hwang 2001, 113).

[9] Korea National Statistical Office. Available at http://www.nso.go.kr/.

[10] The Lee Myung-bak government's "Vision 3000" is composed of "nonproliferation, opening, and 3000," which means that if North Korea fulfills a commitment nonproliferation, South Korea will foster a genuine opening of North Korea and provide support to make its Gross Domestic Product per capita US$3000 in 10 years.

[11] Interview with a former South Korean government official.

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Author's Biography

Jihwan Hwang
Myongji University

Jihwan Hwang is an assistant professor of North Korean Studies at Myongji University, Seoul, Korea. Professor Hwang was a research fellow at the Institute for Unification Studies of Seoul National University.

His research interests include East Asian international relations and security studies, focusing on the North Korean nuclear crisis. His main concern is how to explain North Korea's foreign policy in terms of international relations theories.

He published numerous articles, and his recent publications include "International Relations Theory and the North Korean Nuclear Crisis," "Offensive Realism, Weaker States, and Windows of Opportunity: The Soviet Union and North Korea in Comparative Perspective," "The Second Nuclear Crisis and U.S. Foreign Policy," and "Rethinking the East Asian Balance of Power." Professor Hwang received his Ph.D. in political science from the University of Colorado at Boulder.

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